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GENERAL DISCUSSION ON TRANSNATIONAL CORPORATIONS IN THE WORLD ECONOMY AND TRENDS IN FOREIGN DIRECT INVESTMENT IN DEVELOPING COUNTRIES

Trends in foreign direct investment

Report of the Secretary-General

SUMMARY

The continued growth of world-wide flows of foreign direct investment in 1990, while at a rate below that of the late 1980s, occurred in a context of reduced economic growth in a number of large economies. The willingness of transnational corporations to expand foreign direct investment despite a slow-down in profits, weaknesses within financial systems and reduced profit potential within key host economies, attests to the importance of long-term objectives in the expansion of transnational corporations.

While foreign direct investment continues to be concentrated in the developed market economies, and especially within the triad economies (the European Community, Japan and the United States of America), the growth of foreign direct investment in developing countries in Asia and, more recently, in Latin America and the Caribbean, is an important development. In addition, a number of developing countries in Asia are themselves becoming important home countries to transnational corporations. Foreign direct investment in the countries of Central and Eastern Europe continues to show signs of growing, but foreign direct investment to Africa, and to the least developed countries, continues to stagnate.

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INTRODUCTION

1. At its seventeenth session, the Commission on Transnational Corporations requested the United Nations Centre on Transnational Corporations to prepare a report on trends in foreign direct investment and the role of transnational corporations in world development. 1/ The present report was prepared in response to that request.

2. The report analyses trends in foreign direct investment at the global, regional and sectoral levels. It examines the slow-down in the growth of flows of foreign direct investment in 1990 and the role of cyclical and structural factors in affecting the growth of foreign direct investment. The report describes shifts in the regional distribution of foreign direct investment, discusses key developments within each region and examines prospects for an increase in the flow of foreign direct investment to Central and Eastern Europe.

I. GLOBAL TRENDS

3. Foreign direct investment continued to grow in 1990, although at a rate below that of the late 1980s. World-wide outflows of foreign direct investment reached $225 billion, representing an increase of 7 per cent over 1989 and a decline from the average annual growth rate of 14 per cent for the 1980s (see table 1). At the same time, preliminary estimates show a decline in world-wide inflows of foreign direct investment in 1990, to $184 billion (see box 1). The rate of growth of outflows in 1990 was higher than what might have been expected, given the slow-down in economic growth in a number of large countries and difficulties that emerged in many financial institutions.

4. The slow-down in the growth of outflows in 1990 can largely be attributed to a slow-down in the growth of outflows from Japan, a possible plateauing of outflows from the United States and a decline in outflows from the United Kingdom of Great Britain and Northern Ireland (see table 2). Outflows of foreign direct investment from developed countries, except for Japan, the United Kingdom and the United States, grew by 27 per cent in 1990, a rate of growth equivalent to the global average for the period 1983-1990. Outflows from developing countries also declined in 1990 when compared with 1989. Outflows from developing countries had grown substantially in the late 1980s, driven by the growth in outflows from the Asian newly industrializing economies.

Table 1. Inflows and outflows of foreign direct investment, 1986-1990

Country group	1986	1987	1988	1989	1990 a/	1980-1985	1986-1990 a/	1980-1985	1986-1990 a/
	(Billions of dollars)					Share in total (Per cent)		Growth rate (Per cent)	
Developed countries									
Inflows	64	108	129	165	152	75	83	-3	24
Outflows	86	135	161	201	217	98	97	-2	26
Developing countries									
Inflows	14	25	30	30	32	25	17	4	22
Outflows	2	2	6	10	8	2	3	1	47
All countries									
Inflows	78	133	158	195	184	100	100	-1	24
Outflows	88	137	167	211	225	100	100	-2	26

Sources: International Monetary Fund, balance-of-payments tape, retrieved in December 1991; estimates made by the Organisation for Economic Cooperation and Development; and World Investment Directory (ST/CTC/66) (to be issued as a United Nations publication).

a/ Based on preliminary estimates.

Box 1. The discrepancy between inflows and outflows

Foreign-direct-investment inflows and outflows should balance, in principle; however, in practice, similar to other balance-of-payments items, they do not. Although this is not a recent phenomenon, the size of the discrepancy between world investment inflows and outflows has been increasing and has become a cause for concern. In 1990, the discrepancy reached $41 billion, a sizeable amount and one that potentially distorts the picture for 1990. The size of the discrepancy is actually higher given the fact that reinvested earnings are not included in outflows reported by Japan. Since Japanese outflows grew rapidly during the late 1980s, reinvested earnings are likely to be sizeable. Several reasons have been cited as the cause of the discrepancy, including the following: differences in the threshold definition between inward and outward investment (which, however, has not been found to be a significant source of discrepancy); differences in the treatment of unremitted branch profits between inward and outward investment; treatment of unrealized and realized capital gains and losses; the recording of transactions of "offshore" enterprises; differences in the recording of reinvested earnings between inward and outward investments; differences in the method of collection and reporting of foreign direct investment between countries; and differences in the treatment of real estate and construction investment. a/ The use of outflows for analysing foreign-direct-investment trends is based on the premise that most of these flows originate from a small number of developed countries, which have collection systems that are more suited to take the above factors into account than many of the recipient countries and, as such, provide a more reliable picture of the trends.

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a/ For a discussion of the causes of the discrepancy between investment inflows and outflows, see Neil Patterson, "The world statistical discrepancy on foreign direct investment capital flows: provisional comparisons and adjustments", paper prepared for the third meeting of the Working Party on the Measurement of International Capital Flows, Washington, D.C., 13-15 September 1990.

Table 2. Outflows of foreign direct investment from five major home countries, 1986-1990

Country	1986	1987	1988	1989	1990 a/	1980-1985	1986-1990 a/	1980-1985	1986-1990 a/
	(Billions of dollars)					Share in world total (Per cent)		Growth rate (Per cent)	
France	5	9	15	19	35	6	10	-6	59
Germany	10	9	11	14	23	8	8	4	22
Japan b/	15	20	34	44	48	10	20	22	35
United Kingdom	18	31	37	36	21	20	17	-1	6
United States c/	14	28	14	29	29	26	14	-16	20
Total	61	97	112	142	156	69	72	-5	26

Source: International Monetary Fund, balance-of-payments tape, retrieved in December 1991.

a/ Based on preliminary estimates.

b/ Data for Japan exclude reinvested earnings.

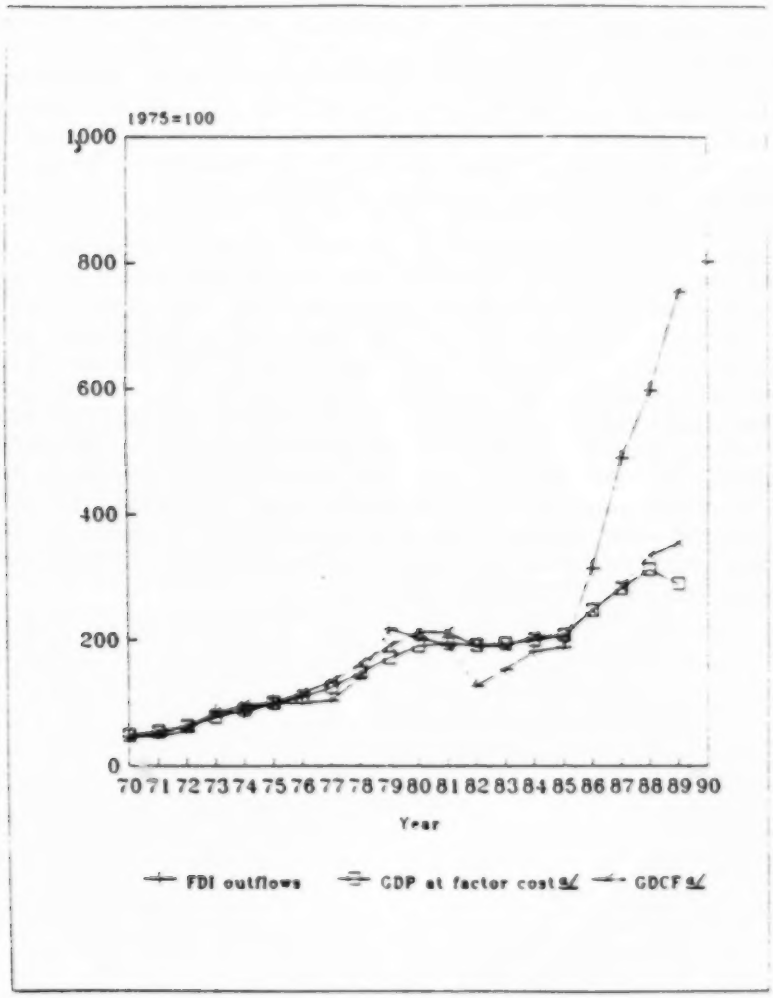
c/ Excluding outflows to the finance sector (except banking) and insurance and real estate sectors of the Netherlands Antilles. Also excludes currency translation adjustments.

5. The changes observed for 1990 can largely be explained by conditions within the United States. Inflows into the United States fell from $71 billion in 1989 to $37 billion in 1990, as the onset of a recession made investments less profitable. The slow-down of outflows from Japan and the United Kingdom, noted above, is to a significant extent a result of changing economic conditions in the United States, where Japan and the United Kingdom are the largest investing countries. A recession in the United Kingdom and larger domestic investments by Japanese corporations also contributed to a reduced growth in outflows from those countries. 2/ In addition, a decline in world-wide merger-and-acquisition activity (a result of slower growth, rising equity market valuations and uncertainties in financial markets) exerted a dampening influence on outflows of foreign direct investment.

6. Among the reasons given for the lower level of foreign direct investment in the United States in 1990, the weakness of its economy owing to the onset of recession has been cited. 3/ This raises the question of the impact of cyclical fluctuations on the investment outlays of transnational corporations, as well as the attractiveness of host countries facing a recession. In the past, the volatility of investment flows has been closely related to cyclical fluctuations (see figure I). 4/ In 1990, a year of recession or low growth for many developed countries, foreign direct investment continued to grow. In contrast, during the last major recession in the early 1980s, flows of foreign direct investment declined substantially. The rate of growth of foreign-direct-investment outflows for three of the five largest home countries (Japan, the United Kingdom and the United States) slowed considerably in 1990 or declined compared to 1989, which would suggest that cyclical fluctuations have contributed to the decrease in the rate of growth of investment outflows. Among the five largest home countries, outflows from Germany increased by about 60 per cent from their 1989 level; however, that country grew at a relatively high rate in comparison to the others during 1990. 5/ Outflows from France jumped 80 per cent, as changes in government policies stimulated a substantial growth in cross-border mergers and acquisitions by French transnational corporations. 6/

7. The fact, however, that investment outflows grew at a modest rate even during a year of slow growth and that the level of foreign direct investment in that year was above the average level of those outflows during 1987-1990 (a period of high growth) in all five major home countries except the United Kingdom suggests that transnational corporations may be becoming less influenced by cyclical fluctuations, and more tuned to long-term global strategic objectives (such as penetrating markets or increasing market share). One factor explaining this behaviour is the growing realization that global expansion is necessary to increase competitive advantages. 7/ By pursuing long-term goals, transnational corporations are less likely to be influenced by cyclical fluctuations. For example, the expansion of transnational corporation activity in Central and Eastern Europe, despite severe weaknesses in many of the economies in that region, attests to the importance of long-term goals in corporate planning. Such considerations would suggest that the recent divergence between the growth rates of foreign direct investment and gross national product (GNP) would continue in the 1990s, even if the explosive growth of foreign direct investment observed in the late 1980s was not repeated. At the same time, it is possible that a slow-down in growth could affect foreign direct investment with a lag, with foreign direct investment continuing to grow slowly or even decline in 1991 and 1992. In addition, if the recession spreads and deepens, slow growth in the short term may have an impact on the long-term plans of transnational corporations, and lead to a temporary decline of flows of foreign direct investment.

Figure I. Foreign direct investment, gross domestic product and gross domestic capital formation, 1970-1990



Source: International Monetary Fund, balance-of-payments tape, retrieved in December 1991; World Bank, World Tables database.

a/ Data for 1989 are preliminary.

8. Inflows of foreign direct investment to developing countries grew by 7 per cent in 1990, based on preliminary data. Developing countries received 17 per cent of all inflows in 1990, equal to their share for the last half of the 1980s. Continued strong growth of flows to South and South-East Asia and a substantial increase of flows to Latin America and the Caribbean were partially offset by a drop in flows to Africa. The growth in the share of foreign direct investment going to developing countries was a result of an increase in the size of such flows, as well as a slackening in world-wide flows. Among developing countries, the 10 largest host countries continued to receive approximately two thirds of all inflows. Flows of investment to the least developed countries grew slightly in 1990, to $250 million - equivalent to the inflows to Pakistan. Foreign direct investment to Central and Eastern Europe increased sharply, but remained at low levels.

9. The sectoral composition of the outward stock of foreign direct investment by major home countries at the end of the 1980s is shown in table 3. As discussed in the World Investment Report, 1991, the rapid increase in investment flows during the 1980s was accompanied by a shift in the sectoral composition of both flows and stocks towards services. For all but one country (Canada), the services sector continued to be the single largest sector, and reached over two thirds of the stock of Japan and over 40 per cent of the stock in most of the other countries. Despite fluctuations in annual flows into the various sectors, including a decrease in the share of services in outflows from all of the major home countries except the Netherlands in the most recent year for which data on sectoral flows are available, the shift towards services, reflecting long-term structural changes, seems likely to continue. 8/

Table 3. Sectoral composition of the stock of outward foreign direct investment of major home countries

(Percentage share and compound annual growth rate)

Country	Period	Sectors			
		Primary	Secondary	Tertiary	Total
Canada					
Composition	1975	9	62	29	100
	1989	7	52	42	100
Growth rate	1975-1989	13	14	19	17
France a/					
Composition	1975	22	38	40	100
	1989	13	40	47	100
Growth rate	1975-1989	23	28	29	27
Germany					
Composition	1976	5	48	47	100
	1989	3	42	56	100
Growth rate	1976-1989	7	10	13	12
Japan					
Composition	1975	28	32	40	100
	1989	7	26	67	100
Growth rate	1975-1989	10	20	27	22
Netherlands					
Composition	1975	47	39	15	100
	1989	35	24	41	100
Growth rate	1975-1989	6	5	17	12
United Kingdom					
Composition	1981	31	43	26	100
	1987	27	34	39	100
Growth rate	1981-1987	13	11	23	15
United States b/					
Composition	1975	26	45	29	100
	1990	8	44	47	100
Growth rate	1975-1990	0	8	12	12

Source: Estimates made by the United Nations Centre on Transnational Corporations, based on World Investment Directory (ST/CTC/66) (to be issued as a United Nations publication).

a/ Based on cumulative flows of direct investment from 1972.

b/ The vertically integrated petroleum industry is included in the primary sector in 1975. In 1990, only the extractive portion of the industry is included in the primary sector, with processing included in the secondary sector and marketing and distribution in the tertiary sector.

II. REGIONAL TRENDS

A. Developed market economies

10. The slow-down in the growth of investment flows to and from the developed market economies in 1990 is largely due to a slowing down of economic activity, especially in the United States, which entered a recession in the middle of the year, and to some extent in Western Europe. The slow-down in growth, combined with rising private sector debt burdens and emerging structural weaknesses within the financial systems in a number of countries, was behind a slowing down in global merger-and-acquisition activity, the most important mode of cross-border investment firms from developed market economies. The major exception was France, whose transnational corporations increased their cross-border mergers and acquisitions in 1990. 9/

11. There are also indications that 1990 represented a year in which transnational corporations began to consolidate their positions within North America and Western Europe, as firms approached their desired capital positions after a period of rapid growth. Japanese transnational corporations expanded investments in domestic production facilities, in response to an increased government demand stimulus, as the growth of outward foreign direct investment slowed down. 10/ The slow-down in Japanese outflows may also be attributed to the substantial direct investments abroad accumulated by major Japanese transnational corporations during the 1980s in automobile and electronics production, and lesser amounts of finance available for outward direct investment as Japanese banks - the key financier for overseas investments - incurred substantial losses during the crumbling of the stock and real estate markets at the start of 1990, while having to increase their reserves to meet reserve requirements of the Bank for International Settlements.

12. Inflows of foreign direct investment to Japan increased in 1990, from negative flows in 1988 and 1989 when a number of foreign investors, including such firms as Chrysler, General Motors and Honeywell disinvested, apparently, at least in part, to realize capital gains accumulated during the boom in Japan's stock and real estate markets. The stock of foreign direct investment in Japan remains low in comparison with that in other large developed market economies, when expressed in relation to the stock of outward investment and the level of gross domestic product (GDP) in the host economy (see table 4). Government restrictions on inward foreign direct investment in existence from 1950 through 1980 explain, in part, the low level of the stock of inward investment. However, at least some transnational corporations do not appear to have adopted their most effective competitive stance in approaching the Japanese market. For example, only a few transnational corporations in the automobile industry, such as BMW, have established their own distribution networks in Japan. At the same time, the competitive advantages of Japanese corporations within their home market continue to raise difficulties for foreign transnational corporations seeking to operate within Japan. While there are signs indicating that a significant increase in inflows of foreign direct investment is possible, such an increase has yet to materialize. 11/

Table 4. Inward and outward foreign direct investment in the largest developed market economies, 1989

(Billions of dollars; percentage share; ratios)

Items	European Community a/	Japan b/	United States	France	Germany	United Kingdom
Inward stock of FDI	249	28	374	51	74	135
Percentage of world total	22	2	27	4	5	10
Outward stock of FDI	370	156	376	75	122	213
Percentage of world total	32	11	27	5	9	16
Ratio of inward stock to outward stock	0.67	0.18	0.99	0.68	0.61	0.63
Ratio of inward stock to GDP	0.05	0.01	0.07	0.05	0.06	0.17

Source: Calculations of the United Nations Centre on Transnational Corporations, based on World Investment Directory (ST/CTC/66) (to be issued as a United Nations publication).

a/ Excludes intra-EC foreign direct investment.

b/ The stock of foreign direct investment in Japan is estimated using data on outward investment from Australia, Canada, the European Community, Norway, Switzerland and the United States.

13. The growth of inflows and outflows to and from the Western European countries that are not members of the European Community (EC), combined with the already large amounts of EC inward and outward foreign direct investment, is an indication of the possible emergence of the European economic area as a powerful economic region (see table 5). In the case of the Nordic countries, the surge of inward investment after 1984 reflects the determination of Governments to pursue policies more favourable to transnational corporations prior to the onset of wider European economic integration. 12/ Companies from Sweden as well as other countries belonging to the European Free Trade Association (EFTA) have launched aggressive merger-and-acquisition offensives inside the European Community to gain a stronger foothold in the Single Market, while firms from within EC have also invested in EFTA countries. During the period 1985-1989, approximately 51 per cent of total inflows and outflows of investment in the non-EC Western European countries were accounted for by the countries of Western Europe.

14. Despite the decline in inflows of foreign direct investment into the developed market economies, those countries continued to account for more than four fifths of world-wide inflows in 1990. The triad, consisting of EC, Japan and the United States, accounted for approximately 70 per cent of world-wide inflows, a proportion unchanged from that of the decade of the 1980s, and 83 per cent of outflows, a small decline from the 1980s. In the 1990s, the emerging triad may be more aptly described as including Japan, North America (Canada and the United States) and the European economic area (EC and EFTA). Cross-holdings of stocks of foreign direct investment within this emerging triad amounted to $572 billion in 1989 (see figure II).

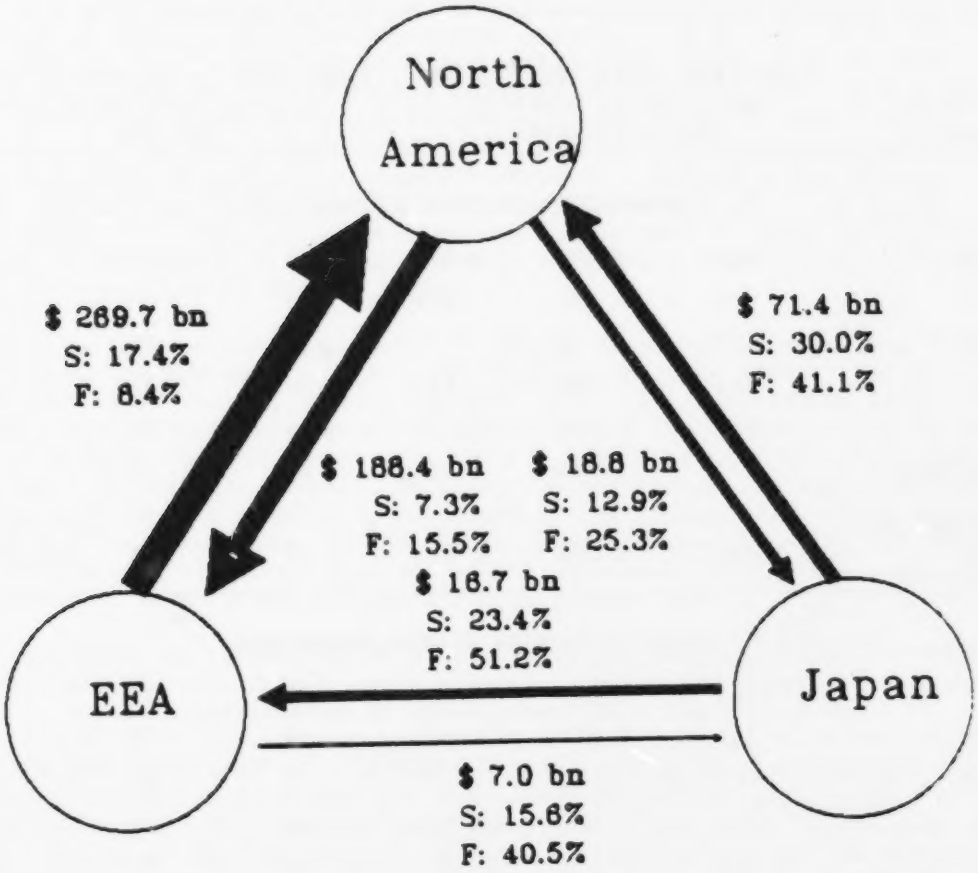
15. The continuing concentration of transnational corporate activity in the triad has made foreign direct investment an increasingly important instrument of global economic integration in those countries. The growth and concentration of foreign direct investment in the triad at the beginning of the 1990s are associated with several cyclical and structural factors: sustained technological competition and cross-border, intra-industry production; significant economic developments in those countries such as the regionalization of markets with the planned EC integration and its extension to EFTA countries; the United States-Canada free trade agreement and the likely inclusion of Mexico in a wider North American free trade agreement; deregulation in services industries; high growth rates relative to most other regions of the world; and fears of rising protectionism as regional markets grapple with their relations with the rest of the world. The economic slow-down of the early 1990s may have reduced the impact of some of these trends, but it is not likely to alter them in any material way.

Table 5. Flows of foreign direct investment to non-EC Western Europe, by region and country, 1980-1984, 1985-1989 and 1990, annual average

Host region and country	1980-1984 (Millions of dollars, annual average)	1985-1989 (Millions of dollars, annual average)	1990 (Millions of dollars, annual average)	1980-1984 (Annual average growth, per cent)	1985-1989 (Annual average growth, per cent)	1989-1990 (Annual average growth, per cent)
A. Inward foreign direct investment						
Austria	263	474	1 008	-6	37	19
Finland	70	350	979	49	44	100
Iceland	20	-2	6	-12	-54	123
Norway	264	514	821	-100	114	46
Sweden	261	965	2 331	4	38	63
Switzerland	284	1 788	4 925	21	22	74
Non-EC Western Europe	1 162	4 090	10 070	20	45	42
B. Outward foreign direct investment						
Austria	147	389	1 754	-2	111	18
Finland	195	1 610	3 585	38	73	15
Iceland	0	3	7	0	57	-17
Norway	338	1 209	1 326	24	0	1
Sweden	1 123	5 369	14 157	24	52	47
Switzerland	284	1 788	4 925	132	15	-19
Non-EC Western Europe	2 129	13 351	27 203	36	30	19

Source: International Monetary Fund, balance-of-payments tape, retrieved in December 1991.

Figure II. Intra-triad foreign direct investment, 1989



Source: World Investment Directory (ST/CTC/66) (to be issued as a United Nations publication).

Note: Dollar figures show estimated value of stock of foreign direct investment based on data on inward and outward investment from North America and the European economic area (EEA), excluding Iceland and Liechtenstein. Intra-North American investment and intra-EEA investment has been netted out. Percentages show average annual growth rates for stocks (1980-1989) and flows (1985-1990). North America includes Canada and the United States. The European economic area includes the European Community and the European Free Trade Association, excluding Iceland and Liechtenstein.

B. Developing countries

1. Overall trends

16. Foreign direct investment to developing countries grew in 1990, reaching a total of $32 billion, thus continuing the substantial growth in inflows to developing countries that began in the mid-1980s (see table 6). The Asian region attracted the majority (61 per cent) of inflows to developing countries. Flows to Latin America and the Caribbean grew in 1990 (to reach a share of 32 per cent), as a number of countries in that region were showing signs of a significant economic revival. Flows to Africa (7 per cent) and to the least developed countries (0.7 per cent) have remained at low levels and show no signs of significant growth.

17. While the quantity of flows to developing countries as a whole, and Asia and the Pacific and Latin America and the Caribbean in particular, continued to increase, the share of foreign direct investment going to developing countries declined over time, reflecting strategies of transnational corporations that increasingly favour the locational advantages of developed market economies. (The share of inflows to developing countries increased in 1990, largely owing to the sharp drop in inflows to the United States, a drop that is not likely to be repeated in succeeding years.) Among developing countries, a large proportion of inflows of investment was directed to a small number of countries (see table 6). Thus, while developing countries benefited from foreign direct investment, those benefits were not evenly distributed.

Table 6. Inflows of foreign direct investment to developing regions, by region, 1970-1979, 1980-1985 and 1986-1990

Host region and economy	1970-1979 (Billions of dollars)	1980-1985 (Billions of dollars)	1986-1990 a/ (Billions of dollars)	1970-1979 (Share of all inflows) (Per cent)	1980-1985 (Share of all inflows) (Per cent)	1986-1990 a/ (Share of all inflows) (Per cent)	1970-1979 (Annual growth rate) (Per cent)	1980-1985 (Annual growth rate) (Per cent)	1986-1990 a/ (Annual growth rate) (Per cent)
All countries	22	50	150	100	100	100	16	-1	24
Developing countries	5	13	26	24	25	17	21	4	22
Latin America and the Caribbean	3	6	9	14	12	6	21	-5	17
Western Asia	0	0.3	0.5	1	1	0.4	-	53	37
East, South and South-East Asia	1	5	14	6	9	9	17	7	29
Oceania	0.02	0.1	0.1	0.1	0.3	0.1	28	-2	-5
Africa	1	1	3	3	3	2	22	52	6
Other b/	0.02	0.04	0.5	0.1	0.1	0.03	15	-8	-
Least developed countries	0.01	0.2	0.2	0.5	0.4	0.1	27	-16	116
Ten largest host countries	1970-1979 c/	1980-1990 d/		1970-1979 c/	1980-1990 d/		1970-1979 c/	1980-1990 d/	
	4	13		16	13		21	20	

(Source and footnotes on following page)

(Source and footnotes to table 6)

Source: Estimates made by the United Nations Centre on Transnational Corporations, based on International Monetary Fund, balance-of-payments tape, retrieved in November 1991, and World Investment Directory (ST/CTC/66) (to be issued as a United Nations publication).

a/ Based on preliminary estimates.

b/ Malta and Yugoslavia.

c/ In billions of dollars: Brazil (1.3), Egypt (0.2), Hong Kong (0.1), Indonesia (0.2), Islamic Republic of Iran (0.1), Malaysia (0.3), Mexico (0.6), Nigeria (0.3), Singapore (0.3) and Uruguay (0.1).

d/ In billions of dollars: Argentina (0.7), Brazil (1.8), China (1.7), Egypt (0.9), Hong Kong (1.1), Mexico (1.9), Malaysia (1.1), Singapore (2.3), Taiwan Province of China (0.5) and Thailand (0.7).

2. Asia and the Pacific

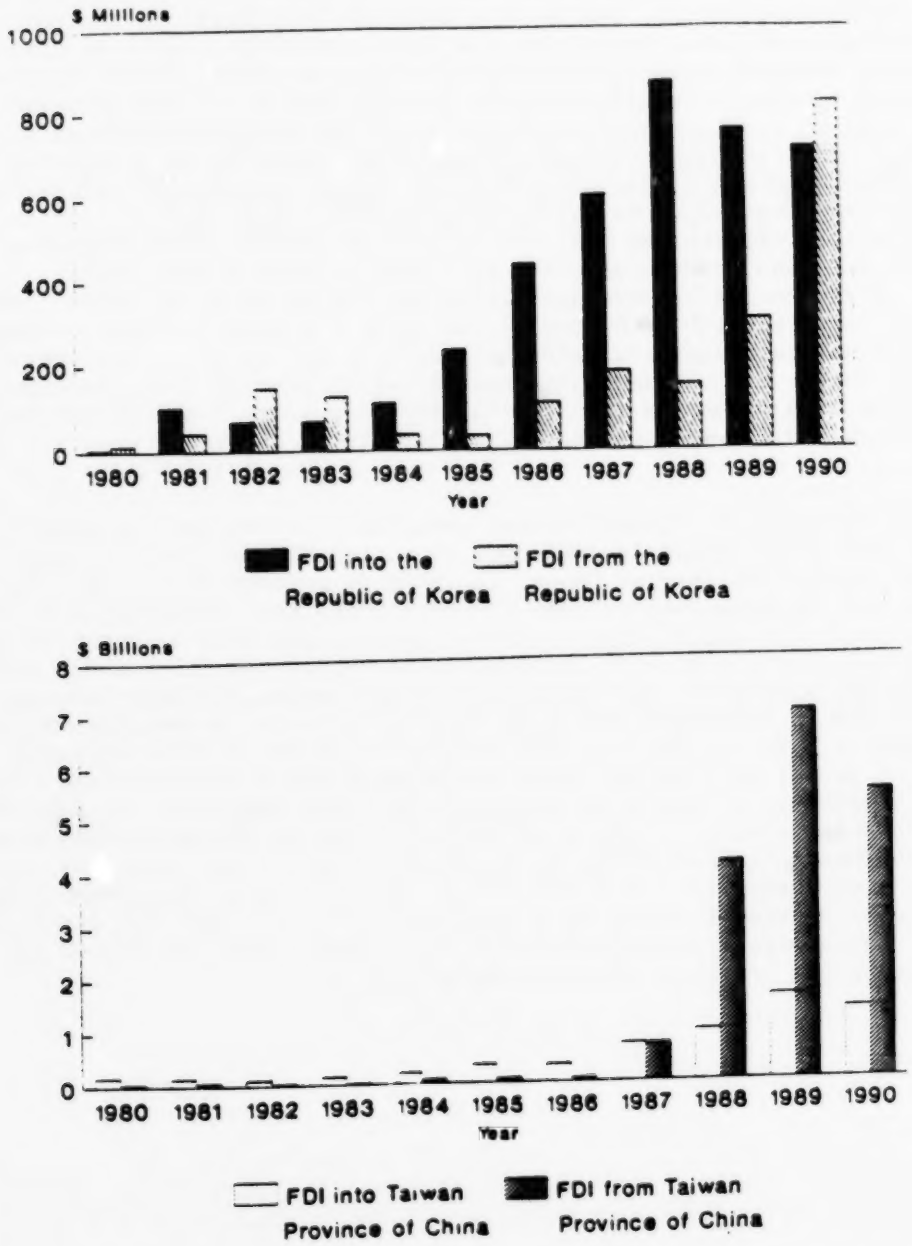
18. In 1990, the position of East, South and South-East Asia and the Pacific as the leading recipient of foreign-direct-investment flows among developing countries was further consolidated, with Asia and the Pacific accounting for almost 60 per cent of total flows to all developing countries in that year. At the same time, that group of countries accounted for an overwhelming share of investment outflows from developing countries (over 90 per cent in 1990), with the Asian newly industrializing economies being the leading source of those outflows. Moreover, the Republic of Korea and Taiwan Province of China have become net exporters of investment and, along with the other Asian newly industrializing economies, are responsible for an increasing share of all investment flows to Asia.

19. East, South and South-East Asia and the Pacific, having overtaken Latin America and the Caribbean as the largest recipient of investment among developing regions in 1986 (on average, during 1989-1990, investment inflows were almost twice as large in Asia and the Pacific as in Latin America), continued to surpass all other developing regions in terms of the size of inflows. Flows of investment to Asia and the Pacific continued to grow in 1990, reaching approximately $18 billion, an 18 per cent increase over the previous year. Attracted by high rates of domestic growth, relatively low production costs and increasingly lucrative domestic markets owing to rising consumer purchasing power, investment flows to those countries have grown at the highest rate among all developing regions; inflows grew by 20 per cent throughout the 1980s and by 29 per cent during the period 1986-1990.

20. The share of Western Asia in total inflows of foreign direct investment to developing countries continued to decline during the second half of the 1980s compared to the first half, although, in absolute terms, inflows increased. Oil-exporting countries have been the major recipients of foreign direct investment, accounting for roughly two thirds of those investments to Western Asia. In 1990, Cyprus experienced its highest inflow of investment capital over the past two decades and accounted for over half of flows to non-oil-producing countries of that region.

21. Investment outflows from East, South and South-East Asia, valued at almost $8 billion in 1990, fell slightly from the previous year's record high of over $8 billion. On average, investment outflows from Asia grew by 47 per cent during the 1980s and 75 per cent during the period 1986-1990. In both the Republic of Korea and Taiwan Province of China, outflows have exceeded inflows, a phenomenon usually reserved for developed countries (see figure III). China has also emerged as a major investor from that region during the past decade, with investment outflows reaching $830 million in 1990 (an annual average growth rate of 17 per cent since 1986), reflecting the efforts on the part of Chinese transnational corporations to penetrate new markets and to acquire technology and management skills.

Figure III. Foreign-direct-investment inflows and outflows, Republic of Korea and Taiwan Province of China



Source: World Investment Directory (ST/CTC/66) (to be issued as a United Nations publication).

22. This unprecedented growth of foreign direct investment from the East, South and South-East Asian region, overwhelmingly from the newly industrializing economies in which a growing number of domestic firms have become global competitors, can be attributed to the "push" factors of the appreciation of national currencies and labour shortages exerting upward pressure on domestic production costs, the large current account surpluses experienced by some of those countries and the removal of restrictions on outward capital flows. In addition, the loss of generalized system of preference (GSP) status for those economies is likely to have contributed to the increase of outward investment and influenced its pattern, particularly regarding the location of investments by transnational corporations in the industries most affected by the removal of that status, such as electrical equipment and food processing. The main "pull" factors have been protectionist threats by developed countries, which have led firms from those economies to invest in North America and Europe in order to secure market access and maintain a presence in their main export markets. Another important factor was access to technology, which enables firms to upgrade their production processes and move up the value added chain to retain export market share and increase the capital intensity of output in the face of domestic labour shortages.

23. Most of the total foreign-direct-investment stock from the newly industrializing economies in developed countries (64 per cent of total outward stock for Taiwan Province of China, in 1990) is concentrated in the North American and European markets. At the same time, transnational corporations from the newly industrializing economies are increasingly focusing on Asia as a low-cost production base for supplying the region and the rest of the world 13/ and as a means of diversifying export markets in the face of growing protectionism in developed countries. 14/ As a result, intraregional flows of investment in East, South and South-East Asia and the Pacific expanded rapidly during the second half of the 1980s and account for a growing share of the inward investments of the recipient countries (see table 7). In particular, the newly industrializing economies accounted for an increasing share of total annual average investment flows to countries in South and South-East Asia and to other newly industrializing economies. While outward investment from those economies is driven primarily by supply factors (low production costs and the need to retain export competitiveness), investments into the latter are motivated by the growth in domestic demand.

Table 7. Investment flows to South and South-East Asia, China and the Asian newly industrializing economies from the Asian newly industrializing economies, 1983-1986 and 1987-1990 a/

(Percentage share of total average annual inflows)

Host economy	1983-1986	1987-1990
South and South-East Asia		
Malaysia	19	41
Philippines	6	18 b/
Thailand	13	31
Indonesia	11	19
India	1	3 c/
Newly industrializing economies		
Republic of Korea	3	5 c/
Taiwan Province of China	10	14
China	55	66 c/

Source: World Investment Directory: Asia and the Pacific 1992 (ST/CTC/66) (to be issued as a United Nations publication).

a/ As reported by host economy.

b/ 1987-1989.

c/ 1987-1988.

3. Latin America and the Caribbean

24. The revival of foreign direct investment in Latin America and the Caribbean can be linked to the resurgence of economic growth in a number of countries, policy changes that have allowed foreign investors greater access to the region's resources and markets and stronger efforts at regional economic integration. 15/ The proposed North American free trade agreement, if enacted, will enhance the locational advantages of Mexico as a host country for foreign direct investment, a process that has already begun. At the same time, outflows of investment from the region declined substantially. Transnational corporations from Latin America and the Caribbean, with a few exceptions, have not developed into international competitors. The role of import substituting trade and industrialization strategies in the region may have contributed to the slow expansion of transnational corporations from Latin America and the Caribbean.

25. Successes in managing external debt burdens, combined with concessions to debtor countries through the Brady debt initiative, allowed indebted countries to adopt more stimulative economic policies, increased the confidence of both foreign and domestic investors and helped stimulate inflows of foreign direct investment to a number of countries in the region. Debt-for-equity swaps have been important in facilitating foreign investment flows, especially in Chile, Brazil and Venezuela (see table 8). 16/

26. Economic policy changes, especially in Argentina, Chile and Mexico - involving a greater liberalization of policies towards transnational corporations and more of an outward orientation of economic policies - have been manifested in the privatization of state-owned enterprises, the lowering of trade barriers and greater efforts to control fiscal deficits (see box 2). A number of countries in the region have stepped up efforts at fostering regional integration, in part with the objective of enlarging markets and attracting larger amounts of foreign direct investment.

Table 8. Total foreign direct investment and foreign direct investment financed through debt-equity swaps, 1985-1989

(Millions of dollars)

Country	Total investment inflows 1980-1984	Total investment inflows 1985-1989	Foreign direct investment through debt-equity swaps a/ 1985-1989	Foreign direct investment through debt-equity swaps as percentage of total foreign direct investment 1985-1989
Argentina	2 195	3 646	731	20
Brazil b/	10 499	7 687	4 529	59
Chile c/	1 210	3 947	3 160	80
Mexico	7 497	10 098	3 053	30

Source: Debt-Equity Conversions: A Guide for Decision Makers (United Nations publication, Sales No. E.90.II.A.22).

a/ Includes only that portion of swaps which corresponds to foreign direct investment.

b/ Excludes informal conversions.

c/ Excludes chapter XVIII transactions.

Box 2. Foreign direct investment in Argentina

Inflows of foreign direct investment to Argentina began to increase in the late 1980s, particularly in gas and petroleum, food processing, hotels and restaurants, textiles, production of semi-finished agricultural goods, banking and retail and wholesale trade. The recent increases in investment flows into Argentina may be attributable to efforts by the Government to achieve greater political and economic stability through the implementation of reforms designed to integrate Argentina more into the world economy, thereby increasing access to the country's resources and markets for foreign firms. The Government has also instituted reforms in policies and regulations governing foreign direct investment and trade designed not only to attract foreign capital, but also to encourage the repatriation of an estimated $40 billion of flight capital. In addition, the privatization of public entities in 1990 led to inflows of new funds, reaching nearly $1 billion. Aerolineas Argentinas, the state-owned airline, and ENTEL, the state-owned telephone company, have been sold. Development rights were granted to oilfields, two television stations and one radio station. And concessions were given to operate three rail lines. Additional privatizations are scheduled in 1992. In addition, the planned inclusion of Argentina in the Brady Plan in 1993 could lead to a significant reduction in the country's foreign debt.

Specific reforms in foreign-direct-investment policies and regulations include the following: the passing of legislation in 1989 providing national treatment to foreign investors; the liberalization of the foreign exchange market to allow the repatriation of capital and the maintenance of dollar deposits by the private sector in Argentina or abroad; free access by foreign investors to local capital markets; and the requirement of foreign investment registration only for statistical purposes. United States investors also stand to benefit from investing in Argentina through programmes offered by the United States Overseas Private Investment Corporation, which grants insurance and loan guarantees to any investment approved by the Argentine Ministry of Economy. a/

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a/ For further discussion, see Paul Moore, "Argentina reemerging in the global economy", LA/C Business Bulletin, vol. I (November 1991), pp. 1-3.

27. The proposed free trade agreement being negotiated by Mexico with the United States and Canada has already increased the attractiveness of Mexico as a low-cost production location for the entire North American market. 17/ Majority-owned foreign affiliates of United States companies plan to increase capital spending by 20 per cent in 1991 in Mexico, as of July 1991, as compared to a planned 9 per cent increase for the region as a whole, and up from a 6 per cent planned increase in December 1990, in response to the prospect of the free trade agreement and an improving investment climate. 18/ Although investment inflows into Mexico declined by $405 million in 1990, a number of indications point to the rapid expansion of foreign direct investment in 1991. For example, official approvals of new foreign direct investments in Mexico reached a record high of $14 billion in 1991, suggesting a substantial increase of inflows in the future. Actual inflows of foreign direct investment are estimated to exceed $4 billion in 1991. 19/

28. The implementation of the North American free trade agreement is likely to have long-term impacts on countries in Central America and the Caribbean. Some of the export-oriented labour-intensive investments currently being undertaken in Central American and Caribbean countries and geared towards the North American market may be diverted to Mexico. Countries in the region appear to have benefited from policies of the Government of the United States designed to stimulate trade with the United States market. The creation of twin plants for production sharing between Puerto Rico and its Caribbean neighbours, such that labour-intensive operations are carried out in a Caribbean or Central American country and final processing is performed in Puerto Rico, have allowed United States and other foreign producers to tap into the region's low-cost, abundant labour force, with low turnover rates and rapid turnaround potential. 20/ Transnational corporations from the Asian newly industrializing economies, especially the Republic of Korea and Taiwan Province of China, have located some of their labour-intensive manufacturing in Caribbean countries partly because of the latter's free trade status with the United States. 21/ While the proposed free trade agreement will increase the attractiveness of Mexico as a location for such export-oriented foreign direct investments, those investments will not enjoy the locational advantages of the Central American and Caribbean countries that emerge from their preferential access to EC through the Lomé Convention. In addition, those Central American and Caribbean countries would continue to be an important host area for investment in agro-business by transnational corporations.

29. Foreign-direct-investment outflows from Latin America and the Caribbean were $400 million in 1990, based on preliminary and incomplete data, a 29 per cent decline from the record peak of $708 million in 1989. 22/ The most important sources of foreign direct investment within the region have been Chile, Colombia, Brazil and Venezuela. Outward investment from tax haven countries in the Caribbean region may be traceable ultimately to investors from third countries.

30. The slower growth of outflows from Latin America and the Caribbean in comparison to East, South and South-East Asia may be explained by the earlier trade and industrialization strategies adopted by the two regions. The

emphasis placed on greater outward orientation and economic growth through export expansion in a number of Asian countries, particularly the newly industrializing countries, may have contributed to the greater competitiveness of their firms in trade and international production. This has resulted in larger amounts of exports and, later, export-oriented outward investments from Asia. In fact, the surge in international production by the Asian newly industrializing economies in export-oriented, labour-intensive manufacturing in labour-abundant neighbouring countries during the period since 1986 may be attributed to the fact that continued rapid export expansion from the home country has become problematic, owing to exchange rates, labour costs, loss of GSP status and other factors. By contrast, the emphasis on greater inward orientation and economic growth through domestic demand in a number of Latin American countries may have contributed to the relatively slower growth of Latin American firms that are internationally competitive in either trade or international production. In addition, the slower pace of growth in Latin America owing to macroeconomic difficulties, including debt-service problems, helps to explain why the growth of transnational corporations from Latin America and the Caribbean has been surpassed by the more rapid development of Asian transnational corporations in recent years. 23/

4. Africa

31. Flows of foreign direct investment to Africa fell to $2.2 billion in 1990 - slightly more than what Portugal received in that year - a decrease of 50 per cent from 1989. Although investment inflows were significantly lower in 1990, their level was similar to that reached during most years in the late 1980s, implying that the 1989 level was exceptionally high. The fall in investment inflows was experienced primarily by the oil-exporting countries in Africa, particularly Nigeria and Egypt, whose share of the total fell from 80 to 66 per cent between 1989 and 1990. For the latter, the impact of political tensions in the Persian Gulf on the investment climate is the main explanatory factor. Non-oil-exporting countries in Africa, most of which are classified as least developed countries, received on average less than $0.5 billion per year during the second half of the 1980s - roughly what Papua New Guinea alone attracted during the same period.

32. The increasing marginalization of Africa is reflected in the low levels of foreign direct investment flowing to the region. Continuing uncertainty regarding prospects for economic development has deterred investments by transnational corporations from the major home countries, as those companies favour countries with high growth rates or large domestic markets. 24/ The low level of new investments in Africa by transnational corporations from the major home countries, indicated by the small proportion of equity capital in total foreign-direct-investment outflows to that region reported by those countries (less than 10 per cent during the late 1980s), further illustrates that most investment is undertaken by affiliates that already have investments in the region. There are also examples of large transnational corporations acquiring existing foreign-owned companies, without contributing to the overall amount of foreign direct investment. 25/

33. In recent years, a number of countries in Africa have sought to attract greater amounts of foreign direct investment, primarily by reducing or removing legal and regulatory restrictions on the activities of foreign companies. Despite those extensive efforts at liberalization, the quantity of foreign direct investment flowing to the region has remained small, largely because, as indicated above, the economic advantages of the countries in the region appear not to be sufficient to attract larger flows of new investment. Thus, a greater involvement by national and international agencies may be needed to help attain the necessary economic conditions and infrastructural requirements to attract significant amounts of foreign direct investment.

C. Central and Eastern Europe

34. The number of joint ventures and wholly owned affiliates registered in Central and Eastern Europe nearly doubled between the end of 1990 and June 1991, to reach a total of about 25,300. Foreign equity participation committed to those enterprises amounted to about $9 billion (see table 9). However, the amounts actually invested remain small by international standards. 26/ For example, in Czechoslovakia, less than 10 per cent of all foreign investment projects were operational at the end of March 1991; similarly, only an estimated 140 out of 1,500 joint ventures had begun operations by the beginning of 1991 in the then Soviet Union. 27/ Divergence in the economic performance of Central and Eastern European countries and political uncertainty regarding the future of the countries formerly comprising the Soviet Union led to changes in the pattern of investment in the region. By June 1991, Hungary, Poland and Romania had become the largest host countries in terms of the number of registered joint ventures and wholly owned foreign affiliates.

35. While most companies that invest in Central and Eastern Europe are attracted by the size of the domestic market, companies from particular industries, such as automobiles and electrical goods, consider that region (primarily Czechoslovakia, Hungary and Poland) as an extension of Western Europe and are establishing production facilities there with the objective of supplying the entire European market (see box 3). In the automobile industry, a number of Japanese, United States and Western European manufacturers have established plants in Central and Eastern Europe to supply both domestic and foreign markets. 28/ Similar examples may also be found in electrical machinery and consumer goods, with transnational corporations setting up plants in Eastern Europe to serve the entire European market. 29/ Viewing Central and Eastern Europe in the context of a regional core network strategy on the part of transnational corporations is likely to increase further the locational advantages of that area, such as proximity to Western Europe, the availability of a skilled labour force and relatively low labour costs. With improvements in the overall economic situation of those countries this is likely to lead to sizeable increases in foreign direct investment. Although benefits to existing investments may not materialize in the short run, possible "first-mover" advantages and long-term prospects have already induced many companies to invest there.

Table 9. Foreign investment registrations in Central and Eastern Europe, by number and value of foreign equity participation, end of second quarter of 1991

Country	Number	Foreign equity (Millions of dollars)
Bulgaria	800	400
Czechoslovakia	3 700	500
Hungary	8 790	2 000
Poland	4 100	506
Romania	4 196	192
Soviet Union	3 700	5 600
Total	25 286	8 988

Source: World Investment Directory: Central and Eastern Europe (ST/CTC/66) (to be issued as a United Nations publication).

Box 3. Foreign investments in automobiles in Central and Eastern Europe: an example of regional core network strategies

Several automobile manufacturers, including Fiat (Italy), General Motors (United States), Volkswagen (Germany) and Suzuki (Japan), have already invested, or are in the process of investing, in the manufacture of automobiles or automobile components in Central and Eastern Europe. These investments are examples of regional core network strategies on the part of these automobile manufacturers. Transnational corporations, encouraged by the desire of Central and Eastern European countries to integrate themselves with Western Europe, view their investments in that region as part of a wider regional strategy of supplying both the potentially sizeable domestic markets of those countries and the markets of other European countries. For example, General Motors' recently established plant in the eastern part of Germany incorporating the latest production technology, and its new engine plant and a small automobile assembly operation in Hungary may be considered as part of the regional core network strategy of that company aiming at supplying components or finished products to the entire European market. Some companies, notably Fiat, have had a long-term involvement in automobile manufacturing activities in the region through licensing and production agreements and have benefited considerably from the experience gained in negotiating with those countries and in solving particular difficulties. Nevertheless, even latecomers have moved rapidly to establish a strong presence in the region by acquiring existing companies, committing funds for the modernization of existing plants and providing technical and managerial assistance, and by capitalizing on their existing marketing networks.

36. Economic and political developments in the countries formerly comprising the Soviet Union place those countries increasingly apart from the other countries in Central and Eastern Europe. Transnational corporations are less likely to include the former Soviet republics in their regional core network strategies, not only owing to continuing political and economic uncertainties, but also because of the distance of many of those countries from Western Europe, combined with a lack of infrastructural facilities and distribution channels and the regulatory and administrative infrastructure required for the functioning of a market economy. It would, therefore, be unlikely that transnational corporations will invest sizeably in the Asian part of the former Soviet Union to supply the European market. It is only in the area of investments in natural resource development (where distance plays a less significant role) that some transnational corporations have shown a strong interest. 30/ On the other hand, those countries have natural resources, skilled labour and large potential markets, making them attractive locations for foreign direct investment in the future. The proximity of those countries to transnational corporations from developing countries in Asia and from Japan has encouraged some of those companies to invest in the Asian part of the

former Soviet Union (including the Nakhodka Zone), as a means of penetrating the potential markets of the former Soviet republics as well as using it as a base for exporting to the rest of the region. 31/

37. Although the present levels of foreign direct investment in Central and Eastern Europe are small by international standards - about the same level as the foreign-direct-investment flows to Belgium and Luxembourg in 1990 - investments in that region could expand significantly, depending, to a large extent, on the success of the former Soviet republics in implementing market reforms and on the degree of commitment on the part of Western countries to provide financial and technical assistance to those countries and to the region as a whole. By one estimate, cumulative foreign direct investment in Central and Eastern Europe could rise to $75-$100 billion by the late 1990s; other estimates propose similar figures. 32/ Using, for comparative purposes, foreign-direct-investment flows in the 1980s to Brazil, Mexico and Portugal - countries with similar levels of per capita GDP to many of the countries in the region - cumulative investment flows could surpass $50 billion by the end of the 1990s.

CONCLUSION

38. The recent period of rapid growth of foreign direct investment has lasted for more than half a decade. It appears to be driven by important structural features of the world economy and by changing strategies of transnational corporations, while at the same time continuing to respond, in part, to short-term, cyclical changes in patterns of economic growth. The material presented in this report has concentrated on the level of foreign-direct-investment flows and stocks. Additional evidence indicates that the continuing growth of foreign direct investment is an important element in the economies of most of the world's regions. The relative importance of foreign direct investment can be shown in such indicators as the share of foreign direct investment in domestic capital formation and the growth of foreign sales by transnational corporations as a means of delivering goods and services to foreign markets. Those and other indicators of the relative importance of foreign direct investment will be presented and analysed in the World Investment Report, 1992, to be issued by the Centre later this year.

Notes

1/ Official Records of the Economic and Social Council, 1991, Supplement No. 10 (E/1991/31), para. 32.

2/ A reduction in inter-company loans between United Kingdom transnational corporations and their foreign affiliates accounts for much of the decline in outflows of foreign direct investment from the United Kingdom. Some of these changes may reflect United Kingdom firms disinvesting from foreign affiliates in response to home country financial difficulties; see Bank of England, Quarterly Bulletin, No. 31 (November 1991), p. 529.

Notes (continued)

3/ Eduardo Lachica, "European firms slow investment activity in U.S.", The Wall Street Journal, 24 September 1991. In this context, a period of recession is defined as two consecutive quarters of decline in real GNP.

4/ See DeAnne Julius, Global Companies and Public Policy (London, Pinter Publishers, 1990) and DeAnne Julius, "Foreign direct investment: the neglected twin of trade", Group of Thirty Occasional Papers No. 33 (Washington, D.C., Group of Thirty, 1991). Julius found a positive correlation between real growth of outward foreign direct investment and real growth of GNP over the period 1963-1988 for France, Germany, Japan, the United Kingdom and the United States, taken together. She also found that the volatility of foreign direct investment was three to four times greater than that of GNP. Actual foreign-direct-investment growth during 1983-1989 was six to eight times higher than that of GNP, suggesting that factors besides the economic recovery in those countries after the recession of the early 1980s played a role.

5/ World Economic Survey, 1991 (United Nations publication, Sales No. E.91.II.C.1), p. 15.

6/ William Dawkins, "Groups pause for reflection", Financial Times, 22 October 1990.

7/ Committee for the Study of the Causes and Consequences of the Internationalization of U.S. Manufacturing, The Internationalization of U.S. Manufacturing: Causes and Consequences (Washington, D.C., National Academy Press, 1990). As an illustration, United States outflows in 1990 (a year of recession) at $29 billion, were the same as in 1989.

8/ Based on data from World Investment Directory (ST/CTC/66) (to be issued as a United Nations publication).

9/ Randall Smith, "French firms pass British, Japanese as leading acquirors of U.S. concerns", The Wall Street Journal, 24 April 1991.

10/ Dennis M. Engbarth, "Japanese investment drops, hitting US the hardest", Business International, 22 July 1991; Edward Balls, "Expansion abroad curtailed", Financial Times, 15 July 1991; "Japan foreign investment falls", The Wall Street Journal, 3 June 1991; and Stefan Wagstyl, "Japanese overseas investment in first fall since 1983", Financial Times, 4 June 1991.

11/ Dennis J. Encarnation and Mark Mason, "Neither MITI nor America: the political economy of capital liberalization in Japan", International Organization, No. 44 (winter, 1990), pp. 25-54.

Notes (continued)

12/ Robert Taylor, "Sweden eases foreign ownership restrictions", Financial Times, 29 October 1991; John Burton, "Sweden to lift curbs on foreign ownership", Financial Times, 13 February 1991; Enrique Tessieri, "Finns to clear path for foreigners", Financial Times, 14 February 1991; Charles Leadbeater, "Politicians follow where business has been forced to tread", Financial Times, 23 October 1991.

13/ World Investment Report, 1991 (United Nations publication, Sales No. E.91.II.A.12).

14/ Kim Soo Mi, "Auto makers in South Korea set plant plans", The Wall Street Journal, 11 November 1991.

15/ Stephen Fidler, "Better off and back in fashion", Financial Times, 7 October 1991.

16/ Damian Fraser, "Venezuelan debt swap for project investment", Financial Times, 5 July 1991.

17/ For an example of a transnational corporation that is shifting its offshore plants in Asia to Mexico, see James P. Miller, "Zenith is shifting Taiwan jobs to Mexico, signalling trend in other manufacturers", The Wall Street Journal, 12 November 1991.

18/ Mahnaz Fahim-Nader, "Capital expenditures by majority-owned foreign affiliates of U.S. companies, revised estimates for 1991", Survey of Current Business, No. 71 (September 1991), pp. 32-38; Raymond J. Mataloni, "Capital expenditures by majority-owned affiliates of United States companies, latest plans for 1991", Survey of Current Business, No. 71 (March 1991), pp. 26-33.

19/ World Bank, World Debt Tables, 1991-1992 (Washington, D.C., 1991), vol. I., p. 20.

20/ Santiago Fittipaldi, "CB II holds promise for Caribbean Basin, serves as model for Andean initiative", Business Latin America, No. 3 (December 1990).

21/ Shelly Emling, "Asian tigers leap into Central America", Business Latin America, No. 16 (December 1991); and Che-hung Chen, "Taiwan's foreign direct investment", Journal of World Trade Law, No. 20 (November-December 1986), pp. 639-664.

22/ The data for 1990 do not include Brazil, which accounted for two thirds of outflows from Latin America and the Caribbean in the 1980s. Early information indicates that outflows from Brazil increased in 1990. If this is the case in the final data, then outflows from the region would be higher in 1990 than in 1989.

Notes (continued)

23/ Some of the other factors that foster international production in the case of the Asian newly industrializing economies are the need to take advantage of greater geographical proximity or preferential trading status of host countries to important export markets (as in the case of host countries in the Caribbean) and, in the case of Hong Kong, the need to overcome uncertainty surrounding the return of the territory to China; see Paz Estrella E. Tolentino, Technological Innovation and Third World Multinationals (London, Routledge, 1992).

24/ For example, a recent survey of overseas investment plans of Japanese firms showed that, for the period 1991-1993, the European Community, the Association of South-East Asian Nations (ASEAN) and the Asian newly industrializing economies will be the most popular destinations of these firms (World Bank, Debt and International Finance Division, "Financial flows to developing countries: current developments", Quarterly Review (March 1991), p. 8). At the same time, Japanese companies seem to have selected South Africa as the place to invest in the region (Africa Analysis, No. 129 (23 August 1991), p. 5).

25/ Laurence Cockcroft and Roger C. Riddell, Foreign Direct Investment in Sub-Saharan Africa, Policy, Research and External Affairs Working Papers (World Bank, March 1991), p. 27.

26/ See World Investment Directory: Central and Eastern Europe (ST/CTC/66) (to be issued as a United Nations publication), for an analysis of foreign-direct-investment trends in that region.

27/ Ibid.; see also Keith A. Rosten, "Soviet joint ventures riding on troubled waters", The Wall Street Journal, 7 May 1991.

28/ Nicholas Denton, "GM puts further DM100m into its Hungary venture", Financial Times, 6 November 1991; and "Hungary: UT Automotive's new European plant site", Business Eastern Europe, No. 22 (April 1991), p. 123.

29/ Business Eastern Europe, No. 22 (April 1991), p. 126.

30/ Ariane Genillard, "Japanese, Slovaks to link up for Russian oil search", Financial Times, 12 November 1991; and John Lloyd, "Western companies await decision by Soviets on oil", Financial Times, 15 May 1991.

31/ Preston Torbert, "First Soviet free zone will give firms access to Pacific Basin markets", East Asian Executive Reports, No. 13 (March 1991), pp. 9, 16-17; James Rupert, "Central Asia's ties that bind", International Herald Tribune, 2 December 1991. On free economic zones in Russia, in general, see The Challenge of Free Economic Zones in Central and Eastern Europe: International Perspectives (United Nations publication, Sales No. E.90.II.A.27).

Notes (continued)

32/ John Dunning, "International direct investment patterns in the 1990s", paper prepared for The Hague Symposium, The Hague, January 1992; The Economist ("Business in Eastern Europe", 21 September 1991) estimated $7 billion per year of investment into the region until 1995. This would give a total of $28 billion between 1992 and 1995, and about $70 billion by the end of the 1990s.